Fixed Costs of Self-Control Imply Magnitude Effects and Poverty Traps

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We axiomatize a simple dynamic model of costly self-control. When self-control costs are fixed, agents exhibit magnitude effects: self-control increases as the stakes of the decision problem rise. In choice between dated streams of consumption, this results in a reversal of preference to larger, later rewards (overcoming present-bias) when payoffs are scaled up. When applied to a simple consumption-savings problem, magnitude effects translate into poverty traps: while wealthy households self-control to save optimally, poor households forego self-control and over-consume.

Keywords: SELF-CONTROL – DYNAMIC INCONSISTENCY – PRESENT BIAS – MAGNITUDE EFFECT – POVERTY TRAP

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